

TITLE II - AMENDMENTS RELATING TO SOCIAL SECURITY.

Section 201 amends section 210(a)(5) of the Social Security Act to cover prospective service performed by an employee who was subject to CSRS who opts to transfer to the FRS.

Section 202 amends section 3121(b)(5) of the Internal Revenue Code of 1954 to tax the wages of an individual described above.

TITLE III - MISCELLANEOUS AND CONFORMING AMENDMENTS

Section 301 extends the Federal Employees' Retirement Contribution Temporary Adjustment Act of 1983 from January 1, 1986 until January 1, 1987.

Section 302(a) amends section 8331 of title 5, United States Code, to limit coverage under the CSRS for District of Columbia government employees to those first employed before January 1, 1987.

Section 302(b) amends section 8332 of title 5, United States Code, by adding a new subsection excluding participants in the FRS from receiving service credit under the CSRS, except in certain limited situations affecting participants retaining entitlement in the CSRS under section 8472.

Section 302(c) amends section 8333(b) of title 5, United States Code to modify the requirement that an employee or Member must complete at least one year of creditable service as a participant in the CSRS out of the last two years before separation to be eligible for an annuity based

on that separation. The modification provides that service in the FRS will also count towards the one out of the last two-year rule under CSRS. It also amends section 8333(c) by making the contribution requirements of Members applicable only to service performed while not a participant in the FRS.

Section 302(d) amends section 8334(a) of title 5, United States Code, relating to deductions from an employee's pay for both CSRS and Social Security coverage. An employee who was covered by the CSRS on December 31, 1983 and who was subsequently covered by Social Security will continue in the CSRS at a reduced contribution. The contribution to CSRS will be equal to the excess of the employee's normal CSRS contribution over the OASDI portion of the Social Security tax.

Section 302(e) amends section 8339 of title 5, United States Code, to provide that when an annuity to an individual is based on service that includes service covered by social security and by deductions withheld as described in section 8334(a), the annuity will be reduced at age 62 by an amount equal to the value of the social security benefit attributable to that period of service.

Section 302(f) amends section 8348(a) of title 5, United States Code, to clarify that the Civil Service Retirement and Disability Fund is available to pay benefits and administrative expenses for both chapters 83 and 84 of such title.

Section 303 amends section 1005(d) of title 39, United States Code, to include officers and employees of the Postal Service for coverage under the provisions of chapters 83 and 84 of title 5.

Section 304(a) amends section 8901(1)(E) of title 5, United States Code, to limit coverage under the Federal Employees' Health Benefits Program for District of Columbia employees to such employees first covered before January 1, 1987.

Sections 304(b) and (c) amend sections 8901(10) and 8905(c) of title 5, United States Code, to incorporate health benefit plan eligibility requirements for former spouses as a result of P.L. 98-615; section 304(c) also amends section 8905(b) to permit a family member of a deceased employee or annuitant who was enrolled in a health benefits plan to continue that enrollment.

Section 305 amends section 2105(c) of title 5 to provide that chapter 84 does not apply to employees of certain non-appropriated fund instrumentalities.

Section 306 amends paragraph (7)(D) of section 6103(1) of the Internal Revenue Code of 1954 to permit disclosure of earnings records for the purpose of administering the FRS disability benefits program.

Section 307 amends section 8113 of title 5, United States Code, to provide that compensation payable under this subchapter to an individual entitled to benefits under the

FRS will be reduced by the amount of benefits which are or upon application would be payable under title II of the Social Security Act based on the individual's service under the FRS.

Section 308(a) amends section 8701 of title 5, United States Code, to limit coverage under the Federal Employees' Group Life Insurance program to District of Columbia employees first covered before January 1, 1987.

Section 308(b) amends section 8704 of title 5, United States Code, to provide that FRS participants who elect to make a contribution under Section 8418(c) and are covered by the Federal Employees' Group Life Insurance program who die in service are eligible for a benefit equal to two times salary.

Section 308(c) amends section 8705 of title 5, United States Code, to permit an individual entitled to receive the basic life insurance benefit based on the death of an FRS participant to elect to receive it in monthly payments over a two year period.

Section 308(d) amends section 8708 of title 5, United States Code, to authorize payment of the Government's share of the life insurance premium for employees who, after December 31, 1989, elect to continue insurance while receiving an annuity or workers' compensation.

Section 308(e) amends sections 8706, 8714a, 8714b, and 8714c to permit continued coverage for up to 12 months for an employee who enters on active military duty or active

duty for training in the same way coverage is continued for other nonpay status.

Section 309 amends section 376 of title 28, United States Code, section 7448 of the Internal Revenue Code, and sections 1567 and 1568 of title II of the District of Columbia Code to modify the judicial survivor annuity benefits payable under these sections for individuals who first become eligible for annuities on or after the effective date of this Act. The net effect is to increase both contribution rates and benefit formulas.

#### TITLE IV - AUTHORIZATIONS, APPLICATION, AND EFFECTIVE DATES

Section 401 provides for payment of the fiscal year 1986 and 1987 expenses of the Federal Retirement Thrift Investment Board from appropriations.

Section 402 requires OPM to take appropriate action during fiscal years 1986 and 1987 to make available the information described in section 8469 of title 5, United States Code, and authorizes \$1 million to be appropriated for this purpose.

Section 403 provides that except for the provisions of subchapter VII of chapter 84 of title 5, as added by section 101(a) of this Act, and the amendments made by title III of this Act, nothing in this Act shall reduce the accrued entitlements of current and retired Federal employees and their families to future benefits under the CSRS or any other Federal retirement and disability system.

Section 404 provides that this Act takes effect January 1, 1987, except for subchapter VIII of chapter 84 (relating to the Federal Retirement Thrift Investment Management System) and section 301 (relating to extension of the Federal Employees' Retirement Contribution Temporary Adjustment Act of 1983) which take effect on the date of enactment, and the loan program required by section 8426(e), which must be established not later than January 1, 1988.

Newly-covered employees may elect either of the following Options--

Option A: This includes all the regular provisions. See pages 1-5.

Option B: The employee agrees to pay a higher contribution to get the special provisions outlined below. (Both Options are shown here for comparison.)

S. 1527 (October 1, 1985 substitute)														
	Option A	Option B												
<b>Eligibility</b>	Federal employees covered by social security who do not elect Option B when they are first covered by the new plan.	Federal employees covered by social security who elect Option B when they are first covered by the new plan.												
<b>Required employee contributions</b>	None, except for social security.	"Level employee contributions", equal to difference between the employee contributions currently scheduled by law for CSRS and for social security, namely: <table border="1"> <thead> <tr> <th>Calendar year</th><th>Up to S.S. wage base</th><th>Over S.S. wage base</th></tr> </thead> <tbody> <tr> <td>1987</td><td>1.3 %</td><td>7.0%</td></tr> <tr> <td>1988-89</td><td>0.94%</td><td>7.0%</td></tr> <tr> <td>1990 &amp; after</td><td>0.8 %</td><td>7.0%</td></tr> </tbody> </table> Social security wage base is \$39,600 in 1985, increasing in future years with the index of national average wages.	Calendar year	Up to S.S. wage base	Over S.S. wage base	1987	1.3 %	7.0%	1988-89	0.94%	7.0%	1990 & after	0.8 %	7.0%
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<b>Retirement benefit formula (accrual rate)</b>	0.9% x first 15 yrs. service, 1.1% x yrs. of svc. over 15, all times salary base. (These percentages may change slightly, based on CRS cost estimate for Options A and B.)	0.9% x first 15 yrs. service, 1.1% x yrs. of svc. over 15, all times salary base. (These percentages may change slightly, based on CRS cost estimate for Options A and B.)												
<b>Eligibility for unreduced retirement</b>	Age 62 & 5 years service.	Age 55 & 30 years service, Age 62 & 5 years service.												
<b>Amount of reduced retirement benefits</b>	(A) Age 55 & 30 yrs. service, benefit reduced 2% for each year under age 62. (B) Age 55 & 10 yrs. service, benefit reduced 5% for each year under age 62.	Age 55 & 10 yrs. service, benefit reduced 5% for each year under age 62.												
<b>Amount of deferred vested benefits</b>	Full accrued benefit payable at age 62. Reduced benefit can be elected when former employee attains age 55 with the service needed for early retirement (10 years or 30 years), with reductions at 5% or 2% per year under 62.	Full accrued benefit payable when employee attains both age and service needed for unreduced retirement. Reduced benefit can be elected when former employee attains age 55 with 10 years service, reduced 5% per year under 62.												
<b>Refunds</b>	No contributions, thus no refund.	Employees who leave may withdraw their contributions. If they have at least the 5 years service needed for vesting, they also get a deferred annuity based on the excess, if any, of the value of their vested annuity minus their own contributions.												
<b>Contributions to thrift-savings plan (excluded from gross income to the extent permitted for Section 401(k) plans):</b>														
1. Paid by employee and matched by employer	Up to 5% of pay, with employer matching at \$1 for each \$1.	Up to 6% of pay, with employer matching as follows: First 1% matched at \$1 per \$1. Next 2% matched at \$.50 per \$1. Over 3% matched at \$.25 per \$1.												
2. Additional voluntary employee contributions, not matched by employer	Up to 5% of pay. Also, unused amounts may be carried forward, and contributed later up to 5% of pay in any year, outside the usual limit on employee contributions of 10% of pay.	Up to 4% of pay. Also, unused amounts may be carried forward, and contributed later up to 5% of pay in any year, outside the usual limit on employee contributions of 10% of pay.												
<b>Cost-of-living adjustments (for retirement, survivor &amp; disability benefits)</b>	1) Retired, up to age 62: None. 2) Retired, ages 62-66, or disability & survivor cases up to age 67: CPI rate minus 2 percentage points. 3) Age 67 & up: Full CPI rate.	1) Retired, up to age 62: CPI rate minus 2 percentage points. 2) Retired, age 62 & up, or survivor & disability cases at any age: Full CPI rate.												

S. 1527  
Substantive Changes

Early retirement features for special classes (law enforcement officers, firefighters, and air traffic controllers), similar to those in current law, have been added to the bill.

Employees will have an option to select from two retirement plan options, as detailed below. Survivor and disability benefits have been improved for both plans.

Plan A and Plan B

- o Improved survivor benefits for preretirement death
  - Eligible after 18 months of service (instead of five years).
  - Benefit payable immediately (instead of date eligible to retire).
  - No reductions for early retirement or election of a survivor annuity.
  - Survivor benefits are 50% of accrued annuity with no reductions or, if greater, minimum benefit equal to that provided for 10 years of service.
- o Improved survivor benefit for postretirement death
  - Reduction of 10% to pay for election (instead of 12%).
  - Benefit is 50% of annuity prior to reduction for election of a survivor annuity.
- o Improved disability benefit
  - Net benefit after initial offset for Social Security is increased based on the COLA formula of the plan without further regard to the offset.
- o Improved FEGLI for employees who elect coverage
  - Benefit equal to two times pay for all workers.
  - At death of worker, survivor may elect regular payments for two years or a lump sum benefit.



Plan A only

- o Accrual rate: 0.9, first 15 years, 1.1 thereafter
- o COLA changed from CPI-2 at all ages to: no COLA prior to age 62, CPI-2 from 62 through 66, and full CPI at age 67 and over.

Plan B only

- o Accrual rate: 0.9, first 10 years, 1.1 thereafter
- o Thrift match changed from 50% of pay up to 6 percent (\$3) to: \$1 for \$1 to 1% + \$.50 to 3% + \$.25 to 6% (\$2.75).
- o COLA changed from CPI-2 at all ages to: CPI-2 to 62 and full CPI at age 62 and over.
- o Level employee contribution of 7 percent of pay minus the retirement portion of the Social Security tax, instead of a flat 1.3 percent.

S. 1527  
Technical Changes

The bill has been retitled as the "Federal Retirement Reform Act of 1985"

Subchapter I - Definitions

Definition of "employee" clarified with regard to status of Members, noncareer SES, and political appointees on the rolls as of December 31, 1983 and subject to both Social Security and Civil Service Retirement.

Firefighter and law enforcement officer definitions amended to include employees who move to administrative or managerial jobs after 10 years in the occupation.

Definition of "normal cost" is modified to state that it will be used to value the cost of the System for all purposes.

Service definition amended to treat leave without pay the same as in current law.

Subchapter II - Basic plan

Wording added to preclude recipients of workers' compensation benefits from receiving a concurrent retirement benefit under this plan. They can, however, receive money from the Thrift Fund.

Requirement for mandatory retirement of special classes restored to parallel current law.

Annuity supplement for the special classes will start at retirement (rather than age 55).

Normal cost charged to an agency will exclude the amount computed for military service. An agency which disagrees with the cost may ask for a review by the Board of Actuaries.

The DoD budget, rather than the DoD Military Retirement Fund, will be assessed for the normal cost relating to creditable military service of plan participants.

Employees who elect option B will be allowed to receive a refund of their contributions, plus interest, when they separate without forfeiting entitlement to a retirement benefit from the basic plan.

### Subchapter III - Thrift plan

The participant must elect Plan A or Plan B before contributions can be made to the Thrift Savings Fund.

The Thrift Savings Fund loan program established by the Board will be subject to the same conditions prescribed in ERISA.

A "catch up" feature allowing carryover of unused contributions in any year, up to a maximum of 5%, has been added.

Tax treatment language has been clarified to insure equal treatment of federal and private employees under possible modifications to tax laws.

Disability benefits recipients may elect to withdraw their thrift account balance within one year of the disability determination.

The annuity option for a former employee who did not vest in the basic plan has been deleted (withdrawals and rollovers are still permitted).

Description of the balance in the Thrift Savings Fund has been clarified by adding payouts to the list.

The Common Stock Index Investment Fund description has been broadened to recognize stocks sold over-the-counter and to permit sampling in the establishment of an index.

The description of the Treasury special issues used in the Government Securities Fund has been modified to make it similar to the description used for special issues of the Civil Service Retirement and Disability Fund.

### Subchapter IV - Survivor benefits

The right of an individual with an insurable interest has been clarified to show that he or she has the same payment options as a surviving spouse for money payable from the thrift fund.

Wording on effective dates for benefit termination has been clarified.

The opportunity to elect a survivor annuity for a former spouse or a current spouse based on death or remarriage of an earlier designee has been clarified.

#### Subchapter V - Disability benefits

A provision to adjust benefits for recipients whose conditions of entitlement change (i.e., from occupationally disabled to totally disabled or vice versa) has been added.

The section on administrative provisions has been modified to clarify OPM's role in connection with the party or parties administering the LTD benefit. Clarifications on the management of the disability fund have also been made.

#### Subchapter VI - General and administrative provisions

The general authority for OPM to contract for performance of administrative services has been deleted.

Reemployed annuitants who work on a part-time basis are allowed to elect to have their annuity continue and to receive the pay for the position, not to exceed the annual pay a full time employee in the position would receive.

A new section has been added to require OPM to provide participants with information sufficient to understand the rights, benefits, and options available under the plan.

#### Subchapter VII - Transition provisions

A requirement has been added that employees under CSRS who join the new plan must complete 5 years under it before they are exempt from the windfall benefits and public pension offset provisions of Social Security.

Individuals with service credit under CSRS who are covered by this plan may have the service under CSRS credited in determining how the accrual rate formula of Plan A and Plan B applies to them.

#### Subchapter VIII - Civil Service Thrift Investment Management System

Regulatory responsibility has been shifted from the Board to the Executive Director.

The Board members are no longer listed as fiduciaries but are required to discharge their responsibilities solely in the interest of participants and beneficiaries.

As part of the requirement of the Board to remove the Executive Director, the Comptroller General must investigate and recommend action.

A new section has been added creating an Employee Advisory Committee. Participants in the Thrift Savings Fund will elect 5 members for two year terms to advise the Board and Executive Director on investment policies and exclusions from the Index Fund and to exercise shareholder rights with respect to the Index Fund.

The fiduciary responsibility section has been modified to incorporate more specifically the provisions applicable to private plan fiduciaries under ERISA and to clarify the restrictions on self-dealing.

Department of Labor is authorized to prescribe regulations for administering the fiduciary standards applicable to the Thrift Investment Management System and to determine class exemptions from such standards.

Department of Labor is required to establish a system, in consultation with GAO, for the conduct of a compliance audit regarding overall management of the Thrift Savings Fund.

New sections have been added on bonding and insurance.

#### Title III - Miscellaneous and Conforming Amendments

The section which provides free life insurance to plan participants has been deleted.

A section permitting access to wage records of disability benefits recipients has been added.

#### Title IV - Authorization and Effective Dates

A section authorizing a \$1 million appropriation for OPm to carry out the plan's information program has been added.